

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR ALBANIA

**REPORT ON THE INVITATION
TO THE PUBLIC TO COMMENT**

Strategy for Albania: Report on the invitation to the public to comment

1. Invitation to the public to comment on the Albania Strategy

In accordance with the EBRD Public Information Policy (PIP), an invitation to comment on the new Strategy for Albania, along with a Management Note on the issues to be addressed in the strategy, were posted on the Web page on 16 November 2005. The public was invited to submit comments, based on the Note and the previous strategy already on the Web site no later than 5 January 2006.

Up to 5 January 2006 no comments were received on the strategy.

2. EBRD Management Note

Invitation to comment on the Bank's Country Strategy Review for the Republic of Albania

The EBRD has started work on the revision of its Strategy for the Republic of Albania. Comments are invited to help the Bank in revising its Strategy. Any comments should be submitted to the Bank no later than by 5 January 2006 so that they can be taken into account. The current Strategy - which has been available on the EBRD Web site since April 2004 - is attached as a basis on which to comment.

The first Article of the *Agreement Establishing the Bank* states that "the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics."

In order to achieve these objectives, the Bank primarily provides finance for investment projects, with a special focus on the private sector, carefully selecting projects that promote transition, by:

- creating, expanding and improving markets;
- establishing and strengthening of institutions, laws and policies that support markets; and;
- facilitating the adoption of market-oriented skills and sound business practices.

In addition, every Bank project is examined for its environmental impact and the EBRD lays special emphasis on projects that are oriented directly towards environmental improvements and energy efficiency.

At the time of approval in 2004, the Bank noted that Republic of Albania had made significant progress in all fields; nevertheless, it still suffers from problems such as a high level of corruption and organised crime, poor law enforcement and weak administrative and institutional capacity. The main transition challenges were identified as: (i) to encourage private sector development, particularly of SMEs, and bring much of the large informal sector to the formal economy; (ii) to continue to pursue commercialisation and privatisation in utilities; and (iii) to undertake essential investments in the country's dilapidated infrastructure, including further work to solve the energy crisis.

The Bank's strategy was developed to address a number of these challenges and support Albania's transition and integration to Europe. The strategic priorities included:

- The promotion of private sector development through privatised and green-field enterprises, with a particular focus on general industry and agri-business, and support of forthcoming larger privatizations in energy and telecommunications.
- The strengthening of the financial sector, as a key factor for the development of SMEs, through risk-sharing facilities and SME lending frameworks and support for the privatisation of the insurance company INSIG.
- Further support for development of key infrastructure projects in the energy, transport sectors and municipal and environmental infrastructure sectors.

Over the past two years (Jan. 2004 – Nov.2005), the EBRD has committed EUR 124.9 million in 5 new projects. Overall the Bank has been successful in meeting its objectives in the infrastructure and large private sectors.

In 2004, the EBRD signed two operations (EUR 64.9 million). These consist of:

- (i) a loan of EUR 24.9 million to Seament Albania for the construction of new, modern cement plant in Fushe-Kruje, which would meet growing cement demand in the country; and
- (ii) a sovereign guaranteed loan of EUR 40 million to the Albanian Power Corporation for the construction of a new thermal power plant in southern Albania, aimed at balancing energy generation and improving power supply in the country.

The privatization of Tirana Hotel was completed in early 2004, through the auction sale of the assets of the company, and the Bank managed to recover most of the outstanding investment.

The Bank completed the acquisition of 20% of the shares in INSIG, and approved EUR 0.5 million in TC for the restructuring of the company through the appointment of an external international consultant.

In 2005, the EBRD signed three operations (EUR 60 million). These consist of:

- (i) a sovereign guaranteed loan of EUR 35 million for the rehabilitation and partly new construction of Levan-Tepelene road segment, part of the North-South National Corridor;
- (ii) financing of EUR 21 million for Airport Partners Albania for the construction of a new passenger terminal and access road to the Tirana international airport, the first public-private partnership in the country; and
- (iii) a loan of EUR 4 million to Morpack Albania for the construction of a new plant for the production of irrigation pipes and other plastic packaging materials, aimed at substituting imports with local production.

To prepare the future Strategy for the Republic of Albania, it would be useful for the Bank to receive comments based on its mandate: this could include comments on the assessment of the political situation made in the previous Strategy, as well as comments on the business and economic situation. With respect to business development in the country, comments would be appreciated on the following areas:

1. Issues related to the investment climate

This would include issues concerning (i) the legal environment (the implementation and enforcement of laws); (ii) the regulatory environment for enterprises (such as issues related to licencing, taxation, trade protection, price-setting mechanisms, etc.); (iii) the functioning of public administration; and, (iv) corporate governance and integrity. We seek your views on how serious these

issues are for businesses and how you think the EBRD could help to overcome them.

2. Issues related to infrastructure needs and development

This would include issues concerning (i) absorption of post-accession funds, especially in national transport; (ii) public-private partnership as a means of meeting investment needs; and, (iii) power, energy, municipal and environmental infrastructure with particular interest in issues related to restructuring, liberalisation, energy efficiency, and other environmental improvements.

3. Issues related to availability of finance

This would include issues concerning (i) the level of financial intermediation of the banking sector; (ii) the development of the capital markets (iii) SME access to long term adequate finance with particular emphasis to availability of right product mix; (iv) availability of adequate financing tools (ie structured finance, equity, quasi equity); and (v) growth of non-bank finance sector (private equity, quasi-equity, leasing, mortgage banking, insurance, etc.).

4. Issues related to the social impact of EBRD investments

This would include issues concerning (i) small and medium sized enterprises that enhance opportunities for entrepreneurship, job creation and social flexibility; (ii) banking and non-banking financial institutions that improve access to credit; (iii) investments in infrastructure enterprises, with particular attention given to issues relating to social and environmental impact, tariff reform, affordability and environmental improvements (iv) privatisation of remaining state enterprises and diminishing the role of state in commercial enterprises.

5. Issues related to the environmental impact of EBRD activities

This would include issues concerning environmental improvements, energy efficiency, and nuclear safety.

The Strategy provides guidance for EBRD activities in a country, identifying the main challenges which the Bank is best placed to confront. As such, the Strategy cannot address all of the development issues a country faces and necessarily must be selective in identifying issues where the Bank has the experience and ability to play a constructive role.

The Bank will take into account all comments received. A summary of these, with staff responses, will be posted on the Web site following the Board approval of the revised Strategy. The Country Strategy is, however, a Bank document and the responsibility for its contents remains with the Bank.

3. Staff Responses to Public Comments

No public comments were received.